

## Dancing with the Dragon: U.S.-China Engagement Policy

by

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## **Abstract**

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## **Dancing with the Dragon: U.S.-China Engagement Policy**

In November 2011, President Obama made an explicit and direct policy statement during his visit to Australia: “As President, therefore, I have made a deliberate and strategic decision—as a Pacific nation, the United States will play a larger and long-term role in shaping this region and its future, by upholding core principles and in close partnership with our allies and friends.”<sup>1</sup> After the end of the Vietnam War in 1975 and the ensuing decades of involvement in the Middle East region, including protracted wars in Iraq and Afghanistan, U.S. leaders have decided to pivot their priority and resources to the Asia–Pacific region. According to Deputy Secretary of Defense Ashton Carter, this re-focused strategy to the Asia-Pacific is not about China or the U.S. Rather, it is all about the most important and prominent region in the 21<sup>st</sup> century in which many countries have been enjoying the benefit of security and prosperity for over 60 years since the end of World War II (WWII).<sup>2</sup> The rising economies of the so-called “Four Little Dragons”—Hong Kong, Singapore, Taiwan, and South Korea—provide a text-book example of the U.S. security involvement and contribution to the region’s economic stability and prosperity. However, from the People’s Republic of China’s (PRC) perspective, this rebalancing strategy is a direct U.S. attempt to contain or isolate China.<sup>3</sup>

China believes that the U.S. wants to protect its hegemonic position and prevent China from becoming an Asian regional power in which the United States has dominated since the end of WWII. The island disputes in the South China Sea and East China Sea have generated friction between China and neighboring countries. China has criticized the United States for siding with other nations against China’s territorial claims.

However, U.S. leaders have proclaimed neutrality on the island disputes. As China has ascended to become the world's second-most economically powerful nation, it is becoming more assertive in its foreign policy. China is indeed challenging the western-dominated international order.<sup>4</sup>

Currently, the United States is emerging from its worst recession since the Great Depression of 1930s. In its semi-annual report to Congress on international economic and exchange rate policies, the U.S. Treasury Department reports that the Chinese Renminbi (RMB) currency is significantly undervalued, which gives China an advantage over its competitors in trade.<sup>5</sup> During the 2012 presidential election between President Obama and Mitt Romney, both candidates bashed China on economic issues to score political points with voters. According to a Pew Research Center survey in October 2012, far more U.S. citizens are concerned about economic issues than security issues in U.S.-China relations. Most respondents indicated that the enormous U.S. debt to China, the loss of U.S. jobs to China, and the U.S. trade deficits with China are serious problems. U.S. citizens increasingly advocated a tougher trade policy on China.<sup>6</sup> In addition, China-based cyber attacks, China's failure to protect foreign property rights, and China's theft of trade secrets and technology have jeopardized U.S.-China trade relations. China's diplomatic positions with Iran, Syria, and North Korea have also created international concerns, eliciting charges that China is not a "responsible stakeholder" and is a bad citizen of the international community.<sup>7</sup> On human rights issues, China continues to wield a strong arm in Tibet and Xinjiang. China's leaders are quick to quell any opposing voices which threaten the rule of the Communist Party of China (CPC). However, among all these issues, U.S. arms sales to Taiwan are

perhaps the most explosive and damaging factor in the U.S.-China relationship.

Despite China's vehement protests, the United States continues to sell defensive weapons to Taiwan under the auspices of the 1979 Taiwan Relations Act.

The strategic distrust between the two countries is alarming to both Washington and Beijing. Are the United States and China heading to conflict? Is the U.S. policy of engaging China failing? Is the United States appeasing China at the expense of other U.S. allies? Is U.S. strategic rebalancing to Asia-Pacific merely a guise for containment of China? This paper analyzes the current U.S. engagement policy with China and offers both the U.S. and China's perspectives on the five main current friction points; it also identifies opportunities for possible collaborations to enhance U.S. and China relations. It questions whether the current engagement policy sufficiently mitigates distrust between the United States and China. It then concludes with strategic recommendations to enhance the current engagement policy with China.

### History and Background

As Sun Tzu advised in the *Art of War*, “know the enemy and know yourself, in a hundred battles you will never be in peril.”<sup>8</sup> For the U.S. to develop a sound China policy, it is of paramount importance to understand the historical and cultural background of China for the last 150 years, especially the 90 years of the CPC history. The Chinese and western cultures are fundamentally different in so many ways that it requires a thorough cultural understanding to appreciate them.

The development of modern China and explanation of its behavior can be traced back to the First Opium War between the Qing Dynasty and the United Kingdom in 1839-1842. The end of this war marked the beginning of the downfall of the Middle Kingdom and the beginning of modern Chinese history. As a result of this war, Hong

Kong Island was ceded to United Kingdom in 1842 under the Treaty of Nanking. This marked the first unequal treaty in modern Chinese history and the beginning of the period of “100 years of Chinese humiliation.” From 1842 to 1911, the Qing Dynasty was constantly pushed by the imperialist Europeans scrambling for Chinese territory, trade concessions, war compensation, unequal treaties, and Christian missionaries’ proselytizing. It was not until 1911 that the western-educated Dr. Sun Yat-san led a successful revolution against the last Chinese dynasty and formed the Republic of China (ROC) under the “Three People’s Principles” of nationalism, democracy and economic prosperity.<sup>9</sup> The Kuomintang (KMT), or the National Party, was the ROC ruling party led by General Chiang Kai-shek. His party ruled until the CPC drove it to Taiwan Island in 1949 after four years of bloody civil war. On 1 October 1949, the People’s Republic of China (PRC) officially replaced the ROC as the ruling government in China.

The CPC was officially established in Shanghai in 1921. In early ROC history, the CPC twice joined the KMT as a united front and formed a coalition government with the KMT. On the first occasion, the CPC members joined the KMT government between 1922-1927 in order to refine their ideology and consolidate their power. However, the CPC was purged by the KMT under Chiang in 1927. Later, after 11 years of underground movement and leveraging the Japanese attack on the Chinese soil, the KMT government grudgingly reunited with the CPC. Between the years of 1936-1945, the KMT fought alongside the CPC against the Japanese. The genuine initial intent of this second united front remains unclear. There was no doubt that the CPC was on the verge of total collapse and elimination by the KMT had the war not broken out between

Japan and China. In Chinese history, these two united fronts or cooperative governing parties are commonly referred as the “KMT-Communist United Front” (國共合作).<sup>10</sup>

From 1911 to 1949, between the fall of the Qing Dynasty and before the birth of the PRC, China was plagued with warlords; beset with communist and KMT political struggles; threatened by Japanese occupation in Manchuria; and battered and victimized by the Sino-Japanese War, WWII, and then four years of bloody civil war between CPC and KMT. In particular, the war between China and Japan from 1937-1945 left behind a scar that has yet to heal; for example, the Senkaku/Diaoyu island dispute is an unfinished chapter of the Sino-Japanese war. The United States has been caught in the middle of this epic conflict.

From 1949 to 1972, China endured a communist political experiment under Chairman Mao Tse-tung, and was heavily influenced by the Union of Soviet Socialist Republics (USSR). Mao made numerous policy mistakes and flawed political campaigns (e.g., The Great Leap Forward and the Cultural Revolution) that exposed modern China to chaos, isolation, famine, and poverty. Under Mao's rule, China engaged in a war with the United States in Korea and a proxy war in Vietnam. China also had border wars with the USSR and India in the 1960s and one with Vietnam in 1978. China was fiscally crippled under Mao and the rule of CPC.

In 1972, President Richard Nixon engaged China with his ping-pong diplomacy and completely reversed history and the U.S.-China relationship.<sup>11</sup> Nixon's initiative is considered the official beginning of U.S. engagement policy with China. After U.S. official recognition of the PRC in 1972, then under the new Chinese leader Deng Xiaoping who started the modernization in 1978, China's economy boomed and never

looked back. Deng's famous proclamation about having capitalism inside a communist regime captured the world's imagination: "It does not matter if it is a black or white cat, so long as it catches mice."<sup>12</sup> Under Deng and the reformed CPC, China gained international recognition and respect in twenty short years. Hong Kong was returned to China from the UK on 1 July 1997, after 155 years of colonial rule. From the Chinese and the CPC perspective, the return of a lost territory from a European power without any fighting marked the rise of a Chinese nation. China regained the confidence lost in the 1840 First Opium War. Macau was also returned to China in 1999 after over 462 years of Portuguese rule. In 2009, China became the biggest automobile market in the world; it was the greatest importer of iron ore and copper and the second largest importer of crude oil. In 2010, China achieved yet another miracle. In about 30 years since Deng's market reform began, China became the second most powerful national economy based on GDP. It surpassed Japan and was only second to the United States. It has lifted 300 million people out of poverty according to a United Nations report.<sup>13</sup> In 2011, China's GDP hit \$7.26 trillion, with an annual growth rate of 9.2%.<sup>14</sup> By contrast, the U.S. GDP was \$15.09 trillion, with a growth rate of 1.7%.<sup>15</sup> China is predicted to be the largest economy in the world by 2030.<sup>16</sup>

As noted, President Nixon introduced the idea of engaging China in 1972. This policy went well for the United States until the fall of the USSR. While the western world was watching the downfall of communist regimes in the USSR and Eastern Europe in the 1990s, the CPC survived. China remains the only major communist country in the world and U.S.-Chinese rivalry lingers as a symbol of the cold war. This sets China apart from other Asian nations such as Taiwan and South Korea which have progressed

into democratic forms of government over the years.<sup>17</sup> Then a series of events and international incidents involving the United States and China led to the current mutual distrust, and U.S.-Chinese relations are at their lowest point since Nixon's visit to China.

It was the 1989 Tiananmen Square massacre that completely changed the U.S. public point of view on the Chinese government. This state-run massacre confirmed that the Chinese communists will use any means to hold onto power. U.S. TV news broadcasts graphically reported the horror of the People's Liberation Army (PLA) using machine guns and tanks to slaughter students who were peacefully demonstrating in Tiananmen Square. In 1996, China fired missiles over the Taiwan Strait that landed within 30 miles north and south of Taiwan Island as a warning to the Taiwanese government not to declare independence. The threat was real. It put the U.S. to the test of its obligations under the 1979 U.S.-Taiwan Relations Act. In 1999, the Chinese Embassy in Belgrade was bombed by a U.S. NATO plane during the Kosovo campaign. There was a dispute about why the embassy was targeted, but the Chinese were furious that a U.S. plane had bombed its embassy. In 2001, there was another military incident that almost triggered war between the United States and China. A U.S. Navy EP3 electronic surveillance plane collided with a Chinese PLA navy F-8 jet over the South China Sea. The U.S. plane then made an emergency landing on China's Hainan Island. The U.S. crew members were detained for 11 days by the Chinese authorities, who interrogated them before releasing them. In 2009, the unarmed U.S. naval ship USNS Impeccable, while operating in a lawful naval activity, was harassed by two aggressive Chinese fishing trawlers 75 miles south of Hainan Island in the South China Sea. The Impeccable had to take emergency maneuvers to avoid a collision with the

Chinese trawlers. China was escalating its challenges to the United States for access to sea lanes of communication and navigation in the South China Sea. In January 2010, the Obama Administration approved a \$6 billion arms sales package to Taiwan, which again angered China. China considers Taiwan as a Chinese province, so any U.S. arms sales to Taiwan violates its one-China policy. As a result, the Chinese have not supported UN sanctions against the Iranian nuclear program. In February 2010, President Obama met the Dalai Lama, the spiritual leader of Tibet, in the White House. President Obama commended the Dalai's commitment to non-violence and pursuit of dialogue with the Chinese government on human rights issues. The Chinese Foreign ministry immediately lodged a complaint that the U.S. was interfering in Chinese internal affairs, thereby damaging U.S.-China relations and offending the Chinese people. China considers Dalai Lama a separatist who threatens Chinese territorial integrity.

In November 2011, President Obama announced the U.S. strategic rebalancing and its "pivot" to Asia policy. This announcement heightened Chinese anxiety and aroused anti-American sentiment. China's new leadership was urged to stand up against U.S. containment of China's rise.<sup>18</sup>

In January 2012, President Obama's Defense Strategy Guidance cited three major objectives of his rebalancing policy aimed directly at China: 1) China's emergence as a regional power can potentially affect the U.S. economy and security in a variety of ways; 2) China's military power must be accompanied by greater clarity of its strategic intentions; and 3) U.S. will promote a rules-based international order to ensure stability and the peaceful rise of powers in the Asia-Pacific region.<sup>19</sup> This guidance clearly marked the changing tone of the U.S. policy towards China. After 40 years of



engagement with China from 1972 to 2012, the U.S. policy now re-asserts the U.S. position as a leader in the region. President Obama has clearly reacted to the assertiveness of Chinese foreign policy. President Obama's strategic guidance sends a strong diplomatic statement to China that the relationship between the U.S. and China is at a crossroads.

#### Current U.S. Security Alliances

To further understand the complexity of current differences with China, one has to have a thorough understanding of the current U.S. security alliances in the area. In the Asia-Pacific region, the United States has five mutual defense treaties and two security cooperation agreements with Asian countries neighboring China:

Table 1:

Philippines: 1951 Mutual Defense Treaty
Australia and New Zealand: 1951 Security Defense Treaty of ANZU
Thailand: 1954 Manila Security Pact
South Korea: 1954 Mutual Security Agreement
Japan: 1960 Mutual Defense Treaty
Taiwan(ROC): 1979 Taiwan Relations Act (security cooperation)
Singapore: 2005 Strategic Framework Agreement (security cooperation)

In addition, the United States is improving ties with Vietnam, India, Pakistan, Myanmar, and central Asian countries on the western border of China. In 2012, Australia strengthened its military ties with the United States by allowing 2500 U.S. Marines to be stationed in Northern Australia. China is uncomfortable with the situation

and criticizes U.S. intentions to contain China through alliances with its Asian neighbors. While China is ascending as a regional power, U.S. strategy for the region is creating a potential conflict. On the other hand, China does not have any official security alliance or treaty with any nation because of its non-alliance principle and its policy of “China’s peaceful rise.”<sup>20</sup> Nevertheless, China’s assertiveness in its foreign policy has actually driven its Asian neighbors closer to the United States to improve their security. China’s rise has created an economic and political shift in the region that creates anxiety to its Asian neighbors. The U.S. leadership role in the region and the engagement with China thus becomes more important than ever.

### Analysis of Engagement Policy

Why should the United States engage China? In general, most Americans, including politicians, will ask this question because they do not have a clear understanding of the situation. After 30 years of engagement with China, there is a widespread belief that the China engagement policy is a failure. Critics claim that this policy is not alleviating the ongoing distrust and differences between the two countries. Some critics suggest that engagement is a policy of appeasement; they claim it only empowers China to rise at the expense of the United States.<sup>21</sup>

The original China engagement policy under Nixon had three main objectives: 1) stop 700 million Chinese from hating the United States; 2) counterbalance USSR’s influence with China; and 3) turn China into a democratic state through economic development.<sup>22</sup> During the Clinton administration, the China engagement policy was further refined and crafted to incorporate a rising China peacefully into an existing international order while promoting trade and democracy.<sup>23</sup> In 1995, six years after the brutal Tiananmen Square suppression of a student demonstration, then-Defense

Secretary William Perry defended the policy in the public. He stressed that engagement did not mean that the U.S. would ignore such issues as human rights, island disputes, or China's weapons proliferation and arms build-up. He believed that the best way to change the Chinese was through firm diplomacy and dialogue. Furthermore, Perry emphasized that containment would only shut down U.S.-China trade, create a split between the U.S. and its Asian allies, and precipitate a possible political confrontation that would likely escalate into military conflict.<sup>24</sup>

During the first Obama Administration, Secretary of State Clinton visited China five times, and President Obama and President Hu Jing-tao had twelve meetings including one official state dinner in Washington. Some observers believe that the four years of Obama's engagement have not altered China's behavior in favor of the U.S. and its allies. Therefore, according to Secretary Clinton, the United States is standing up now for its own interests in Asia by pivoting and strategically rebalancing to Asia while realigning with allies against an increasingly assertive China.<sup>25</sup>

Engagement is defined as "the use of non-coercive means to improve the non-status quo elements of a rising major power's behavior. Engagement strategists will generally intend to induce a rising power to adopt foreign or domestic policies in line with the norms of the dominant international order."<sup>26</sup> The engagement is usually designed to produce a set of desired actions or strategic outcomes. Engagement strategies are policies designed to create more cooperative or desirable relations between the two states. The two types of engagements can be either "strategic engagements" or "communicative engagements."<sup>27</sup>

Strategic engagements are designed to produce strategic actions; the initiating party aims to alter or manipulate the behavior of another party by using threats and incentives (carrots and sticks) in order to bring it in line with the initiator's preferences. State policies using such strategies will treat the other state as an object, rather than as an equal partner. These approaches are considered strategic because they are formulated with a set of directions and rules configured to achieve the initiator's objectives. The target state is influenced and expected to accept these directions and rules.<sup>28</sup> Current engagement policy to China is intended to be strategic, designed to influence and affect China's behavior.

Communicative engagement seeks to gain consensus via dialogue; it relies on reason rather than coercion. This kind of engagement encourages two-way communications that considers both parties' interests. Communicative engagement is not a one-way street from an initiator (U.S.) to a target (China). Such engagement through communicative dialogue seeks to attain a mutually acceptable and satisfactory international arrangement. More importantly, communicative engagement tends to create harmony, so both parties will accept an agreed-upon new arrangement as legitimate.<sup>29</sup>

Military engagement is potentially an important engagement component. Military-to-military engagement can increase understanding of different cultures, create positive relationships, and avoid distrust. Most importantly, it can provide a communication channel during critical times for the national leader or commander to clarify one's intention and avoid any unintended military conflict. Military engagement has also become one of the most important U.S. diplomatic tools of soft power.<sup>30</sup> Modern military

commanders, especially the Geographic Combatant Commanders (GCCs), are trained as both warriors and diplomats. Military diplomacy is increasingly common to achieve national security strategy objectives. It plays a vital role in developing relationships and partnerships with other militaries or their governments. The primary aims of military engagement are to pursue a strategic dialogue, build understanding, improve communication, and reduce the risk of miscalculation. Currently, the Pacific Command (PACOM) Commander is in the best position to play this warrior-diplomat role with China. One of the most noteworthy examples of GCC engagement to de-escalate a near military conflict occurred in 2001 when Admiral Blair, the PACOM Commander, secured the release of eleven U.S. Navy sailors after the Hainan EP3 incident.<sup>31</sup>

#### Power Transition Theory

Napoleon once said, “Let China sleep, for when it wakes up, it will shake the world.”<sup>32</sup> The French emperor made this observation when European colonialism was flourishing in China in the mid-19<sup>th</sup> century. The Qing dynasty could not do anything to stop this western-led international system which eventually led to the dynasty’s fall in 1911. It was not until the late 1990s that China was able to seriously challenge the U.S. hegemonic position and begin to alter the world order.

According to Kenneth Organski’s “Power Transition Theory,” power transition is a game played only by powerful nations. It involves several aspects of international order and relations, such as territory, demographic features, and national power.<sup>33</sup>

Throughout history, any changes in the balance of power and any attempt to alter such an order have usually set the stage for wars among powerful nations. War will break out between the leading power and the challenger if their differences cannot be settled in peaceful ways. The most dangerous time is when the challenger is about to overtake

the dominant nation, or when the dominant nation refuses to relinquish the status-quo.<sup>34</sup> Two classic examples of such power transition that led to wars were the two world wars between Germany and the allies and the Peloponnesian war between Athens and Sparta. The rise of China and its challenge of the U.S. hegemonic position in Pacific is similar to the pre-condition of the Peloponnesian war, which call to mind the famous Thucydides' trap: "It was the rise of Athens and the fear that this inspired in Sparta that made war inevitable."<sup>35</sup> No doubt, China has emerged as a great power. With its current economic development, in the next two decades there is a strong possibility that China will overtake the U.S. as the largest economy in the world. The dynamics of power transition between the United States and China are complicated. It is happening slowly but surely. The once dominant U.S. influence in South East Asia that is now being challenged by China offers the best example of such a power transition.

#### Analysis of Five Major Friction Points

To avoid the deadly consequences of military conflict during such a power transition, both countries' leaders must manage the relationship with extreme care, mutual respect, understanding, and with realistic expectations. U.S. and Chinese leaders must especially manage five major friction points in order to shape a constructive bilateral relationship in the 21<sup>st</sup> century. These include Taiwan, island disputes in the South and East China Seas, political systems and values, economics and trade, and China's role as a responsible stakeholder.

#### PRC-Taiwan Reunification

The PRC-Taiwan reunification issue is considered the most sensitive and challenging friction point between the United States and China. The Taiwan Relations Act of 1979 complicates the reunification issue and jeopardizes the U.S.-China

relationship regarding the “One-China” policy. However, the relationship between China and Taiwan has changed since the election of KMT president Ma Ying-jeou in 2008, along with the increasing economic interdependence between China and Taiwan since the 1990s. In 2001, only 1000 Chinese tourists per day were allowed to visit Taiwan. By 2012, the number of Chinese tourists has risen to 7 million per year. Likewise, Taiwanese investments inside China have increased to \$150 billion annually, compared to \$44 billion in 2007.<sup>36</sup> PRC-Taiwan hostilities have nearly dissipated. Both sides optimistically seek a prosperous and peaceful resolution to this conflict. The possibility of a multi-party democratic government in China may depend on the positive interaction between CPC and Taiwan government. The third “united front” government may be an ultimate solution for Taiwan and China.

#### U.S. View

Taiwan (ROC) has always been a U.S. ally. Both the ROC and the U.S. fought side-by-side against the Japanese in the Pacific War. Although President Truman was convinced that the KMT government under Chiang Kai-shek was corrupt and the United States did not want to get involved in the Chinese civil war, the outbreak of the Korean War changed the U.S. policy to one favoring the Taiwan government. General MacArthur called Taiwan “a U.S.–controlled unsinkable aircraft carrier”<sup>37</sup> and President Eisenhower stressed that any “invasion over Formosa [Taiwan] would have to run over the Seventh Fleet.”<sup>38</sup> The Taiwan Relations Act 1979 codified by Congress during the Carter Administration dictates a peaceful settlement and authorizes the United States to sell defensive arms to Taiwan. It reserves the U.S. right to intervene if the people of Taiwan are under coercion or subjected to any sort of force. In addition, Taiwan has become a democratic country and one of the major U.S. allies in the region. For

regional stability, the U.S. is obligated to support Taiwan's will when it comes to any potential reunification with China.

### Chinese View

China has regarded the Taiwan government as a defeated enemy since 1949. U.S. arms sales to Taiwan violate the sovereignty of China and the one-China policy. For thousands' of years, the Chinese have adhered to a traditional concept that any new ruler of the kingdom is obligated to restore harmony and power, and to recover all the stolen territories of the Middle Kingdom. CPC leaders now have this obligation.<sup>39</sup> Hong Kong and Macau were returned to PRC in 1997 and 1999. Many Chinese believe that unification of Taiwan with the mainland is the last chapter of this historical mission that began with the 1840 First Opium War. Meanwhile, China strongly believes that the U.S. is strategically using the Taiwan problem to contain China and obstruct its rise as a global power.

### Island Disputes in the South and East China Seas

Since 1949, the PRC has been in a nation-building stage, and the PRC has not consolidated its final frontiers. It is still trying to settle its territorial claims in Tibet, Xijiang, Taiwan, and the islands in the South and East China Seas. Mineral resources, fishing rights, Exclusive Economic Zone (EEZ) and control of sea lanes play a key role in the South China Sea island disputes. However, Chinese politics, nationalism and humiliation from defeat in WWII by Japan play a bigger part in the dispute over Senkaku/Diaoyu Island than any economic factors. The CPC is being criticized by the outspoken Chinese critics for using a strong iron fist on its own citizens, while dealing weakly with Japan and other foreign nations. Consequently, CPC will most likely stand firm on the Senkaku/Diaoyu dispute to maintain legitimacy with its people. For China,



the U.S. Navy has maintained a hegemonic position in the region for over 60 years since the end of WWII. China is feeling threatened by the U.S. hegemony in the region. China is expanding its navy and threatening the U.S. with anti-access/area-denial strategy to counterbalance the U.S. Air-Sea battle concept.<sup>40</sup> According to Aaron Friedberg of Princeton University, China's real intentions in the South and East China Seas are to extend its maritime power extending from Taiwan to the South China Sea, using the EEZ and secure sea lines of communication (SLOCs) while building a powerful blue navy to protect China's interests and to acquire indisputable hegemony in the region.<sup>41</sup>

#### U.S. View

The Chinese are stepping up their territorial claims in the South China Sea and East China Sea, together with its claims of 200 nautical miles of EEZ. These claims have caused major concerns to the United States. The confrontations between China and other Asian countries in the island disputes may pull the U.S. into a conflict with China if the United States adheres to its security alliances. According to Secretary Clinton in 2010 at the ASEAN forum, freedom of navigation, open access to Asia's maritime commons and SLOCs are all vital U.S. national interests. The United States will remain neutral in disputes over island ownership and will support a peaceful, collaborative diplomatic process and non-coercive way to resolve the territorial disputes among all the claimants.<sup>42</sup>

#### Chinese View

China claims historical rights to all the islands in the South and East China Seas. China believes that those islands were taken from it during the European colonialism in the late 19<sup>th</sup> century and by the Japanese during WWII. China did not have the

resources to maintain control over those islands in the early years of the PRC. During its modernization period from 1978 to 2008, China avoided disputes with its neighbors, so it pursued a policy of “shelving disputes and promoting joint development.”<sup>43</sup> However, all the other South East Asian claimants ignored China’s joint development proposal while they continued to develop the islands by taking advantage of Chinese passivity and lack of effective control. Chen Jian, a retired Chinese diplomat who served as Under Secretary General of the UN, claimed that the Senkaku/Diaoyu island dispute is a “time bomb planted by the U.S. between China and Japan, and the bomb is exploding or about to explode.”<sup>44</sup> The Chinese believe that the United States is not neutral in these disputes and is using regional alliances to contain China. Also, China believes that it has the right to deny any military activities and foreign passage in the 200-mile EEZ.

### Political System and Values

China remains the only major communist country in the world since the end of the Cold War. In 2011, the CPC declared officially that a multi-party system is not suitable for modern China. The introduction of political reform and western democracy to China opposes the PRC’s governing ideology.<sup>45</sup> During his visit to Guangzhou in Southern China, the new Chinese leader Xi Jin-ping confirmed that China will continue its economic reforms and “opening up,” but he made no mention of political reform.<sup>46</sup> Therefore, it is unlikely that CPC will move towards a democratic form of government soon. However, China has long regarded Singapore-style democracy as a model government that is more suitable for the Chinese culture.<sup>47</sup> The mature democracy in Taiwan with its two-party government system and the highly westernized and autonomous Hong Kong are slowly but surely impacting the minds of the 1.3 billion

mainland Chinese who are beginning to acquire a taste of political freedom. Ironically, both the daughters of Chinese President Xi and Vice-Premier Li are attending U.S. universities.<sup>48</sup> Another 723,000 Chinese international students are studying in the United States; they represent the biggest international student population in the major U.S. universities.<sup>49</sup> In general, Chinese parents will not send their children abroad for higher education if they regard the school as culturally or educationally inferior to its Chinese counterpart. Consequently, while China's leaders are bashing American values and systems, the general Chinese population and the U.S. educated Chinese students are embracing the democratic system slowly but surely.

#### U.S. View

The PRC remains under a one-party authoritarian government system under the Communist Party. The U.S. fought a war with China in Korea, and a proxy war in Vietnam. In general, Americans believe that democratic nations are inherently more trustworthy than authoritarian governments. The United States has a strong belief that a democratically political system is more stable and legitimate domestically. Also, democratically elected officials tend to have a better understanding and appreciation of the nature of U.S. politics and government. The Chinese government lacks transparency and most Americans do not understand how it functions. The secretive Politburo Standing Committee is the brain of the CPC; it enhances the uncertainties about China's strategy for the United States.<sup>50</sup> U.S. observers believe that the Chinese government often uses propaganda to blame the U.S. for its own domestic problems. On the other hand, Americans are proud to promote the American democratic governments to other East Asian countries such as Japan, Taiwan, and South Korea.

Yet, China remains a one-party communist regime that ignores global democratic trends.

### Chinese View

PRC leaders believe that the “China model” of government serves the modern rising China well. The one-party Chinese system provides an alternative to the western style governments that are plagued by disorder, disunity, and chaos. The CPC strongly believes that its current form of government enhances the traditions of a 5000-year-old kingdom in which harmony and unity are more important than the values of western democracy and individual rights. China sees the financial disorder, high unemployment rate, slow economic recovery, and political polarization in the U.S. as a sign of decline. China regards U.S. calls for democracy and charges of human rights violation in PRC as mere political gamesmanship.<sup>51</sup> China also regards the United States as hypocritical on human rights issues because the U.S. has discriminated against minorities throughout its history. PRC leaders point to discriminations against the Chinese in the infamous Chinese Exclusion Act of 1882. The law was repealed only when the United States needed China as an ally in WWII. It was not until June 2012 that the U.S. Congress officially apologized to all Chinese-Americans for this discrimination. China was appreciated on the congressional decision.<sup>52</sup>

### Economics and Trade

Domestic politics plays a main role in this particular friction point. U.S. politicians, both Republicans and Democrats, never hesitate to use the “China card” especially during elections and economic tough times to score political points and to divert attention from U.S. domestic issues.<sup>53</sup> The CPC is doing the same thing in its propaganda against the United States to deflect attention from China’s own troubles.

Nevertheless, both countries seek to maintain growth and protect their national interests. China needs to maintain its formidable GDP growth to feed its population's ever-increasing demand. Otherwise, the CPC will face political challenges and domestic pressure. The United States needs China as an economic partner for its exports and for capital for U.S. investments. A zero-sum game theory of the U.S.-China economic relationship is not only misleading, it also creates suspicion and fear on both sides. The economic interdependence between the two countries is so great that de-linking from each other is almost inconceivable. Going to war with one's largest trading partner would be catastrophic for both sides.

#### U.S. View

Given the rapid growth of the Chinese economy and its rise to become the second most powerful economy in the world in such a short time, the U.S. leaders suspect that China is engaging in state mercantilism at the direct cost of the U.S.<sup>54</sup> In 2011, the U.S. trade deficit with China alone was \$295.4 billion.<sup>55</sup> In addition, China's on-going intellectual property theft and manipulation of the RMB currency to keep it below market value are directly contributing to job losses in the United States. China's restrictions on exports of rare metals of which China provides 90% of the global supply and its restrictions on foreign investments in certain sectors such as financial services are damaging U.S. economic interests. As a result, U.S. leaders suspect that Chinese leaders are using economic policies strategically to weaken the U.S. economy and to achieve global hegemony.

#### Chinese View

The Chinese believe that the United States is using China as a scapegoat for its own economic and financial problems. China's huge trade surplus with the U.S. partially

results from U.S. export restrictions imposed on China, which are both political and discriminatory. From the Chinese point of view, the United States is constantly blocking Chinese companies attempting to merge with or have joint ventures with U.S. companies. Since the 2008 global financial crisis, China's huge portfolio of U.S. Treasury bonds has become a domestic political liability, even more so after the devaluation of the U.S. dollar and the U.S. debt ceiling crisis. China believes that the United States is cheating on China by taking full advantage of the dollar's devaluation with its loan payments. As a result, China is considering internationalization of the RMB and minimizing its global reserve in dollars as a hedge. China sees the U.S. Trans-Pacific Partnership (TTP) as a way to compete with China's growing ties with its Asian neighbors and another way to block internationalization of RMB.<sup>56</sup> According to Chinese Ambassador to the United States Mr. Zhang Ye-zhu, the annual trade between the U.S. and China rose 180 times from \$2.45 billion in 1972 to \$447 billion in 2011. In 1972, the annual total Chinese delegates visiting the United States were less than 10,000 and almost no Chinese students attended U.S. universities. In 2011, the Chinese delegates visiting the United States rose to 10,000 per day and there were 732,000 Chinese international students attending major U.S. universities. Zhang suggests that there are more common interests than differences between the two countries and rejects the idea of a "zero-sum game." He further believes that the United States and China will create a new chapter in the human history where the rising country and the existing power can coexist and benefit from each other.<sup>57</sup>

#### A Responsible Stakeholder

Some critics claim that Deputy Secretary of State Robert Zoellick's 2005 plea for China to be a "responsible stakeholder" in the international community was basically a

gambit to subsume China into a U.S. political and economic system.<sup>58</sup> In fact, China rose to become a current world power by means of the international system that it complains about. Through this system, the United States has been helping China for the last 40 years. The regional security and stability in Asia-Pacific region since the Vietnam War have given China the chance to develop and advance without any interruption. There is some validity in the charge that China is not being a responsible stakeholder. However, China is more responsible than most Americans think. The accusation against China is driven mostly by political reasons as well as misunderstandings. In April 2010 the World Trade Organization (WTO) ruled in favor of China over duties imposed on U.S. steel exports. The WTO panel agreed with China's claims and ruled that the trade remedies are in accordance with WTO rules.<sup>59</sup> China is involved in or acts as a member of numerous international and regional economic and political organizations such as the Association of East Asian nations (ASEAN), the Asia Pacific Economic Cooperation (APEC) forum, the World Trade Organization (WTO), the Shanghai Cooperation Organization, and the World Intellectual Property Organization (WIPO). It is a permanent member of the UN Security Council. It provides troops in UN peacekeeping operations, and voted numerous times as a permanent security member of UN to impose sanctions to stem nuclear proliferation in Iran. In 2008, China ranked in the bottom half of more than 130 countries (at the 54<sup>th</sup> percentile) for protection of intellectual property, but in 2011 it moved up to the 35<sup>th</sup> percentile.<sup>60</sup> The latest 2011 report from WIPO indicates that China has become the number one nation filing Intellectual Property (IP) applications: China has 526,412 applications, U.S. is second

with 503,582 applications, and Japan is third with 342,610.<sup>61</sup> These data suggest that China is getting more serious about IP rights.

### U.S. View

Since Deputy Secretary of State Robert Zoellick urged China to follow the international rules and become a “responsible stakeholder” in the international community in 2005, many believe that China is not following the rules as a world power and is acting like a free-rider for its own benefit. These unacceptable Chinese behaviors include its foreign policy regarding Iran, Syria, and North Korea; China-based cyber attacks on U.S. business, media, and military; China’s lack of enforcement in IP protection laws, which have led to wide-spread counterfeiting and piracy; China’s theft of technology through industrial espionage; and the Chinese government’s suppression of any opposing voice or political opponents who may undermine the regime. Further, China is using an assertive foreign policy and aggressive posture toward its neighbors in the South and East China Seas island disputes. In the 1990s, China ignored ASEAN’s request and occupied Mischief Reef inside the Philippines’ EEZ. China continues to harass U.S. military planes and ships outside of its territorial boundary in violation of international law. The 2001 Navy EP3 reconnaissance plane collision and the 2009 USNS Impeccable incident are the most notorious examples of Chinese harassment of legitimate air and maritime navigation in the global commons.<sup>62</sup> China’s military expansion and budget are alarming to the world because of the lack of transparency and the murkiness of its strategic intent. China’s published military budget is \$106 billion for 2012, which represented an increase of 11.2 percent from the 2011 expenditure of \$91.5 billion. However, it was estimated that the true 2011 Chinese military budget could have been as high as \$180 billion.<sup>63</sup> In 2012, China commissioned



its first aircraft carrier after its successful 2011 test flight of the next generation fighter jet J-20. It is believed that China is building a blue-water navy and expanding its military capability to execute an area denial and anti-access (AD/A2) strategy to neutralize the U.S. Air-Sea Battle concept. The U.S. believes that the world is entitled to an explanation of Chinese defense spending, its strategic intentions, and its doctrine and grand strategy.

### Chinese View

China has been preaching the concept of a “peaceful rise” to world power since 2003, as advocated by the CPC’s Central Cadre School Vice President Zheng Bi-jian. According to Zheng’s principles, China rejects western colonialism and imperialism as a model for Chinese expansion. China is becoming a member of the international system as it is rising. However, it is true that China is not happy with the current international order that is dominated by western powers. China wants to change this system, but will not use force to achieve such an objective.<sup>64</sup> The Chinese also believe that China has become a first-class world power and should be treated as one. The Chinese feel like they are being lectured by U.S. officials, rather than being engaged through a respectful dialogue. They resent having to “save face” in public all the time. China sees the United States as a declining power beset by financial disorder, huge budget deficits, and high unemployment rates. From the Chinese point of view, the charge that China is not a responsible stakeholder is characteristic of the typical western strategic culture led by the United States—“as militaristic, offense-minded, expansionist, and selfish.”<sup>65</sup> To defend itself as a responsible stakeholder, China stresses that it is a participant and signatory of the UN Convention of the Law of the Sea (UNCLOS), unlike the United States. China is expanding its participation in UN peacekeeping operations in Africa.

China is the fourteenth-largest contributor to UN peacekeeping operations; it has provided more peacekeeping troops than the United States, United Kingdom, or Russia.<sup>66</sup> China is also participating off the Somalia coast in the international anti-piracy operation, which is welcomed by the U.S. and European Union. In sum, China believes that it is being singled out because of generations of discrimination and exploitation by western powers and Japan. It believes that those countries are still trying to keep China as a second-tier country in a weakened status.<sup>67</sup>

### Recommendations

The U.S.-China relationship is one of this century's most challenging endeavors for both countries. The economic and political impacts of such a relationship affect the whole world. There is no doubt that the United States and China have a lot of differences in culture, values, and national interests. However, they also share many common interests, such as regional stability and fiscal relations. Direct military conflict between the two countries is unlikely, but any miscalculation or conflict between the U.S. Asian allies and China may pull the United States into unintended conflict with China. The following strategic recommendations seek to mitigate the potential conflicts and to capitalize on the potential for realizing two nations' shared interests.

The relationship between China and Taiwan has improved dramatically in recent years due to economic interdependencies and Taiwan's election of moderate KMT leader Ma Yin-jeou. The United States should leverage Taiwan as a U.S. intermediary with China if U.S.-China relations become tense. The Chinese tend to listen more to a respected family member than to a western power. The Taiwan Relations Act of 1979 is a basis for confrontation with China. The United States should consider ceasing its sales of weapons to Taiwan, but only if the PRC can guarantee a peaceful reunification

that Taiwan finds acceptable, or if the PRC establishes a multi-party democratic government system—the third “United-Front” government (第三次國共合作). Given the positive changes in cross-strait relations, Taiwan could serve proactively as the “political liberator” of China, instead of the other way around. The 1997 Hong Kong reunification with the motherland gave CPC the prestige and legitimacy of a rising power, but the Hong Kong citizens’ unyielding demand for democracy and freedom of the press challenged CPC leaders. Looking back in the recent Chinese history, Cantonese in Southern China were always the change agents for China while the northerners were maintaining status quo. They were the first one to burn the opium imported by British and ignited the Chinese nationalism against the European colonialism in late 19<sup>th</sup> century. They were the first one to revolt against the Qing dynasty under Dr. Sun Yat-san, a Cantonese, and formed the Republic of China in 1911. They were also the first batch of Chinese entrepreneurs who took risks and challenges for the economic development during the early 1980s. When the time is right and the democratic process matures, Taiwan and Hong Kong could serve as a democratic-movement hub and politically liberate China from a one-party system.

To Japan and other allies in the region, the U.S. should use all available means to communicate strategically that the U.S. will not take sides in island or territorial disputes. A clear message will prevent our allies from misunderstanding of the U.S. position. The United States must continuously signal that diplomacy is the way to settle such disputes. For Japan, the U.S. must set a firm date for the settlement of the Senkaku/Diaoyu Island dispute-preferably before the departure of Obama administration in 2016. China and Japan could pull the United States into a major

conflict if the situation gets out of hand. For the South China Sea island disputes, the United States should recommend direct negotiations between China and the other claimants, arbitration by a UN court, or arbitration through third party intermediaries such as Singapore or Australia. With new leadership in China under President Xi and the re-election of President Obama, the United States must take the initiative and aggressively push for a peaceful settlement before the island disputes ignite. The United States should consider revising its security treaties to establish stringent conditions under which U.S. leaders would provide military support to its Asian allies—such as in response to an unprovoked attack. The United States should not provide military support for non-defensive missions, such as to settle borders. Nevertheless, the U.S. should support our allies with diplomacy as well as military force so long as they maintain good faith negotiations with China.

The United States will protect its national interests: China must be fully aware that these interests include freedom of navigation, open access to the global commons, and respect for international law in the South and East China Seas. The United States and its allies should not yield to coercive actions or threats by any claimant in the island disputes. However, the United States should serve as an honest broker for both sides. The United States should continue its obligation with its allies under the mutual security treaties against aggression in order to sustain Asia-Pacific stability, but not to contain China. The United States should welcome China in an equal maritime partnership with the PLA Navy to secure the region and to maintain sea lines of communication. Any peaceful settlements of the island disputes will only reinforce the U.S. leadership

position in the region, regardless of their outcome. On the other hand, if these disputes lead to military actions, the United States could be drawn into these conflicts.

The United States should invest in a long-term relationship with China. China takes years to drop old habits, but it is realizing the benefits its membership in the international community. It has been 40 years since Nixon's first engagement in 1972, and the interdependence between two countries is only getting deeper and richer. The United States should not expect China's political system to change overnight. Indeed the sudden collapse of the CPC would only create Asian turmoil, with unforeseen consequences in both world economy and regional stability. The U.S. Congress should not use the "China card" as a political chip, and the U.S. attitude towards China should be less hostile and more courteous. Both governments should promote understanding and respect. They should promulgate positive news of U.S.-China relations. And they should avoid broadcasting negative barbs about one another.

The United States is in deep financial distress. It needs our Asian allies to step up to pay their contributions to regional security. The Asian allies in the ASEAN should work together to engage China in a constructive dialogue to find meaningful solutions to the island disputes. The United States should not be the dominant voice in the region, and it should not always emerge as the antagonist. China continually emphasizes its "peaceful rise" under the Confucian culture; it officially opposes imperialist expansion in any form. It is time to have serious dialogue with China and to allow China to explain its behavior in the region—not only toward the United States, but toward its neighboring countries. As John Ikenberry has observed about liberal international order in his "A World of Our Making," the United States and the world benefit from China's intercourse

with capitalist democracies. Certainly, the United States should lead with the rule of law, not with power. Eventually, international law and global trade will inevitably liberalize and modernize China without any direct U.S. orchestration.<sup>68</sup>

The Chinese always respect intelligence and wealth, but they have a low regard for ignorance and false pride. It is time for the United States to step back, to recover from the current financial chaos, and to resolve its own domestic issues. The United States must alter its military posture and shrink its footprint. The United States must encourage its partners like Japan, South Korea, Germany, and Australia to assume a larger burden of global leadership. Dividends from a reduced defense budget should be invested on domestic economic development.<sup>69</sup> Without solving its financial mess first, the United States will never be strong again. The United States will only follow the path of United Kingdom's decline after WWII.

Military-to-military engagement between the U.S. and China must be expanded at multiple levels. These engagements would enable our leaders to clearly communicate their intent in order to avoid misunderstandings and distrust while building positive relationships in the long run. The PACOM commander is in the best position to carry out this warrior-diplomat role. For example, the PLA Navy could be invited to join a RIMPAC exercise; PLA officers could join the Army War College international fellow program; U.S. forces could participate alongside PLA units in UN peacekeeping missions; U.S. could finalize the Military Maritime Consultation Agreement between the two navies; U.S. Navy could increase port calls to Chinese ports such as Hong Kong and Shanghai. Military-to-military engagements are great investments and truly support

diplomacy while influencing adversaries during peacetime. They also enhance cooperation and mitigate distrust.

Last but not the least, U.S. leaders must realistically address China's rise to global prominence and the transition of power with China. They should not hold the belief that the United States is in a zero-sum game with China. We, Americans and Chinese, must invest in the future of both countries through a long-term strategy. Cultivating mutual respect and constructive dialogue is the only way to move forward.

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<sup>61</sup> "Global Patent Filing Continued to Grow; China Top Global Patent Filings," Geneva WIPO December 11, 2012 (PR/2012/726) [http://www.wipo.int/pressroom/en/articles/2012/article\\_0025.html](http://www.wipo.int/pressroom/en/articles/2012/article_0025.html) (accessed December 13, 2012).

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